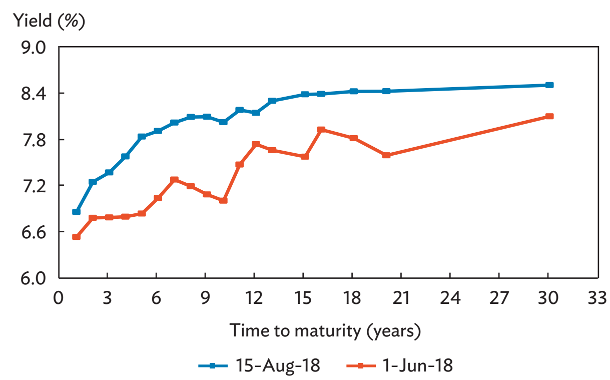
# Indonesia

## Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in Indonesia increased, resulting in the entire yield curve shifting upward (**Figure 1**). Yield upticks were most prominent in the belly of the curve, particularly the 5-, 9- and 10-year maturities, which rose by 100, 101, and 102 basis points (bps), respectively. Bond yields at the shorter-end climbed the least, with the 1-year maturity rising only 32 bps. All other yields across the curve gained an average of 66 bps. As yields rose faster at the longer-end than the shorter-end of the curve, the spread between the 2-year and 10-year maturities widened from 22 bps on 1 June to 77 bps on 15 August.

**Figure 1: Indonesia's Benchmark Yield Curve—Local Currency Government Bonds**




Source: Based on data from Bloomberg LP.

Negative sentiments toward emerging market assets impacted Indonesian bonds, extending the market sell-off that began in February. Foreign investors, which account for the largest investor group in Indonesia's LCY government bond market, reduced their holdings of bonds to a share of 37.8% in mid-August from 38.1% in early June and a high of over 40.0% in January.

Global and domestic issues weighed on the domestic bond market, pushing yields higher during the review period. Positive economic conditions in the United States (US) continued to gain traction, signaling that the Federal Reserve is on track to proceed with its monetary policy normalization. Further exacerbating the global outlook were risks related to trade tensions between the US and the People's Republic of China, and concerns that financial woes in Turkey could spark a contagion in other emerging markets, including Indonesia.

On the domestic front, the Indonesian rupiah was the worst-performing currency among its peers in emerging East Asia between 1 January and 15 August, with its value weakening by 7.0%. The current account deficit widened in the second quarter (Q2) of 2018 to USD8.0 billion (3.0% of gross domestic product [GDP]) from USD5.7 billion (2.2% of GDP) in the first quarter (Q1).

Against this backdrop, Bank Indonesia actively intervened in the foreign currency and bond markets. The central bank also tightened monetary policy, raising its policy rates for a fourth time since May for cumulative hikes of 125 bps. During its 14–15 August meeting, Bank Indonesia raised the 7-day reverse repurchase (repo) rate by 25 bps to 5.50%. Corresponding adjustments were also made for the deposit facility rate (4.75%) and the lending facility rate (6.25%). According to Bank Indonesia, the rate hike was part of efforts to maintain the competitiveness of Indonesia's domestic financial markets and manage the current account deficit. The central bank also reinforced its monetary operations by enhancing money market rates through the introduction of a new overnight rate, IndONIA (see Policy and Regulatory Developments).

The Government of Indonesia is looking at measures to trim the current account deficit through the levy of import tariffs on certain goods and online purchases. Some state projects with a heavy import-dependence will also be put on hold to reduce imports.

Consumer price inflation remains relatively controlled, with the inflation rate staying within the full-year 2018 target of 2.5%–4.5% set by Bank Indonesia. Consumer price inflation rose 3.4% year-on-year (y-o-y) in April, before easing to 3.2% in May and 3.1% in June. Consumer prices inched up slightly to 3.2% y-o-y in July.

Bank Indonesia expects economic growth to range between 5.0%–5.4% for full-year 2018. In Q2 2018, real gross domestic product growth climbed to 5.3% y-o-y from 4.9% y-o-y in Q1 2018. Growth was largely buoyed by strong domestic consumption and modest growth in investments. Household consumption gained 5.1% y-o-y in Q2 2018 on the back of rising incomes and increased spending during the Ramadan and Eid'l Fitr holidays. Government expenditures also contributed to overall GDP growth, accelerating to 5.3% y-o-y in Q2 2018 from 2.7% y-o-y in Q1 2018. Investment growth eased to 5.9% y-o-y from 8.0% y-o-y in the review period. On a quarter-on-quarter (q-o-q) basis, the economy expanded 4.2% in Q2 2018.

## Size and Composition

The local currency bond market in Indonesia managed to expand in Q2 2018 amid the volatility that prevailed in financial markets. The amount of outstanding bonds climbed to IDR2,611.4 trillion at the end of June, with growth slowing on both a q-o-q and y-o-y basis (**Table 1**). In Q2 2018, the bond market grew a marginal 0.5% q-o-q and 12.0% y-o-y, with growth largely driven by the government bond segment.

Indonesia's LCY bond market is dominated by government bonds, which represented 84.6% of the aggregate LCY bond stock at the end of Q2 2018. The respective shares of the stock of government and corporate bonds were unchanged from the previous quarter. Conventional bonds continued to account for a larger share of the bond market, representing 85.4% of the total. *Sukuk* (Islamic bonds) accounted for the remaining 14.6% share, inching up from a 13.8% share at the end of March.

**Government bonds.** At the end of June, the outstanding amount of LCY government bonds rose to IDR2,208.9 trillion on hikes of 0.5% q-o-q and 10.5% y-o-y. Treasury instruments, comprising bills and bonds issued by the Ministry of Finance for budget financing, were the main driver of growth. In contrast, the stock of central bank bills, which are known as Sertifikat Bank Indonesia (SBI), contracted during the review period.

**Central government bonds.** The outstanding amount of central government bonds climbed to IDR2,196.9 trillion at the end of June, posting growth of 0.6% q-o-q and 12.5% y-o-y. Despite a slowdown in issuance during Q2 2018, new issuance of Treasury bills and bonds exceeded maturities.

During the quarter, new issuance of central government bonds came from the auction of Treasury bills and bonds. Total issuance volume reached IDR82.8 trillion in Q2 2018, declining significantly by 62.3% q-o-q and 28.5% y-o-y. The drop on a q-o-q basis was due to a high base, as the government adopted a frontloading policy at the start of the year. In Q2 2018, issuance volume was pared as most Treasury auctions from April through mid-May fell short of the targeted amount, including one auction in which the government rejected all bids. Investors demanded higher rates as they priced in uncertainties in the global market and concerns over the depreciation of the Indonesian rupiah. Subsequently, bond auctions were awarded in excess of the targeted amount after Bank Indonesia moved to tighten its

**Table 1: Size and Composition of the Local Currency Bond Market in Indonesia**

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 2017 | | Q1 2018 | | Q2 2018 | | Q2 2017 | | Q2 2018 | |
| | IDR | USD | IDR | USD | IDR | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **2,331,240** | **175** | **2,598,075** | **189** | **2,611,428** | **182** | **1.8** | **16.4** | **0.5** | **12.0** |
| Government | 1,998,689 | 150 | 2,197,585 | 160 | 2,208,882 | 154 | 1.5 | 15.3 | 0.5 | 10.5 |
| Central Govt. Bonds | 1,952,234 | 146 | 2,184,588 | 159 | 2,196,915 | 153 | 3.2 | 18.5 | 0.6 | 12.5 |
| of which: *Sukuk* | 297,424 | 22 | 329,204 | 24 | 354,277 | 25 | 8.4 | 35.8 | 7.6 | 19.1 |
| Central Bank Bills | 46,455 | 3 | 12,997 | 0.9 | 11,967 | 0.8 | (41.2) | (46.0) | (7.9) | (74.2) |
| of which: *Sukuk* | 46,455 | 3 | 12,997 | 0.9 | 11,967 | 0.8 | 278.5 | 521.9 | (7.9) | (74.2) |
| Corporate | 332,550 | 25 | 400,490 | 29 | 402,546 | 28 | 3.6 | 23.1 | 0.5 | 21.0 |
| of which: *Sukuk* | 13,385 | 1 | 16,449 | 1 | 13,958 | 1 | 13.1 | 40.0 | (15.1) | 4.3 |

( ) = negative, IDR = Indonesian rupiah, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-June stood at IDR222.8 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

monetary policy. As a result of the slowdown in Q2 2018, the government may need to issue a much larger volume in the second half of the year.

**Central bank bills.** At the end of June, the outstanding stock of SBI slipped to IDR12.0 trillion on contractions of 7.9% q-o-q and 74.2% y-o-y. SBI issuance reached IDR2.4 trillion in Q2 2018, declining 42.8% q-o-q but rising more than 100.0% on a y-o-y basis. Bank Indonesia only conducted two auctions of Sharia-compliant SBI during the quarter, one each in April and May. There was no issuance in June due to the long Eid'l Fitr holiday. To help attract foreign portfolio investment, Bank Indonesia announced the resumption of conventional SBI issuance in July. (The central bank previously ceased issuance of conventional SBI in January 2017.) This is expected to boost the supply of SBI beginning in the third quarter of 2018 (see Policy and Regulatory Developments).

**Corporate bonds.** The stock of corporate bonds climbed to IDR402.5 trillion at the end of June, rising a marginal 0.5% q-o-q but a more rapid 21.0% y-o-y. The uptick was due to a modest growth in new corporate debt issues during the review period.

At the end of June, a total of 113 firms comprised the entire corporate bond market in Indonesia. The 30 largest issuers of corporate bonds had an aggregate bond market size of IDR300.4 trillion, representing a 74.6% share of the corporate total (**Table 2**). Dominating the top 30 list were firms from the banking and financial industry, which together account for about 70% of the list. Nearly half of the firms in the list were state-owned firms, with 7 such firms landing in the top 10.

The top 30 list was led by three state-owned firms whose respective standings were unchanged from the prior quarter. Leading the list were Indonesia Eximbank (IDR34.1 trillion), Bank Rakyat Indonesia (IDR25.4 trillion), and Bank Tabungan Negara (IDR18.0 trillion).

In Q2 2018, a total of 24 corporate firms tapped the bond market, raising funds worth IDR28.9 trillion. Total issuance climbed 5.2% q-o-q but fell 24.1% y-o-y during the review period. There were 58 new bond series issued during the quarter, of which 4 bond series were structured as *sukuk mudharab'ah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

Among the new bond issues in Q2 2018, state-owned Indonesia Eximbank had the largest aggregate issuance at IDR3.2 trillion. It was followed by Federal International Finance, which issued a total of IDR3.0 trillion from a dual-tranche bond sale. Third on the list was telecommunications firm Indosat with aggregate issuance of IDR2.7 trillion from a multitranche bond issue. **Table 3** presents some of the largest aggregate new bond issuances during the quarter.

**Foreign currency bonds.** In April, the Government of Indonesia tapped the euro and US dollar bond markets, marking the second time it sold dual-currency bonds. The government sold EUR1.0 billion of 7-year bonds with a coupon rate of 1.75%, its fifth issuance of EUR-denominated bonds. The sovereign also sold USD1.0 billion of 10-year bonds with a coupon rate of 4.1%. Both the EUR- and USD-denominated bonds marked Indonesia's first US Securities and Exchange Commission shelf-registered issuance.

In May, the Government of Indonesia also raised JPY100 billion worth of samurai bonds in four tranches. The bond sale comprised JPY49 billion of 3-year bonds with a coupon rate of 0.67%, JPY39 billion of 5-year bonds with a coupon rate of 0.92%, JPY3.5 billion of 7-year bonds with a coupon rate of 1.07%, and JPY8.5 billion of 10-year bonds with a coupon rate of 1.27%.

With these issuances, the government completed its planned foreign currency funding for the year. Prior to which, the government had frontloaded its 2018 financing via a December 2017 issuance of USD4.0 billion of global bonds and an aggregate of USD3.0 billion from a global *sukuk* issuance in March 2018.

## Investor Profiles

**Central government bonds.** Foreign investors remain the largest holder of LCY government bonds in Indonesia, albeit their share fell to 37.8% at the end of June from 39.5% in June 2017 (**Figure 2**). The decline in the foreign holdings share was driven by a market sell-off as US Treasury yield rose and the US dollar appreciated against most major currencies. This resulted in foreign investors dumping holdings of IDR-denominated bonds as they rebalanced their portfolios. In nominal terms, nonresident bond holdings totaled IDR830.2 trillion at the end of June compared with IDR770.6 trillion a year earlier.

**Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia**

| | Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|---|---|---|---|---|---|---|
| | | LCY Bonds (IDR billion) | LCY Bonds (USD billion) | | | |
| 1. | Indonesia Eximbank | 34,117 | 2.38 | Yes | No | Banking |
| 2. | Bank Rakyat Indonesia | 25,370 | 1.77 | Yes | Yes | Banking |
| 3. | Bank Tabungan Negara | 17,950 | 1.25 | Yes | Yes | Banking |
| 4. | Indosat | 17,519 | 1.22 | No | Yes | Telecommunications |
| 5. | PLN | 17,357 | 1.21 | Yes | No | Energy |
| 6. | Bank Pan Indonesia | 14,025 | 0.98 | No | Yes | Banking |
| 7. | Sarana Multi Infrastruktur | 12,900 | 0.90 | Yes | No | Finance |
| 8. | Waskita Karya | 12,509 | 0.87 | Yes | Yes | Building Construction |
| 9. | Federal International Finance | 12,077 | 0.84 | No | No | Finance |
| 10. | Bank Mandiri | 11,000 | 0.77 | Yes | Yes | Banking |
| 11. | Adira Dinamika Multifinance | 10,562 | 0.74 | No | Yes | Finance |
| 12. | Perum Pegadaian | 9,840 | 0.69 | Yes | No | Finance |
| 13. | Pupuk Indonesia | 9,076 | 0.63 | Yes | No | Chemical Manufacturing |
| 14. | Telekomunikasi Indonesia | 8,995 | 0.63 | Yes | Yes | Telecommunications |
| 15. | Sarana Multigriya Finansial | 8,456 | 0.59 | Yes | No | Finance |
| 16. | Astra Sedaya Finance | 7,825 | 0.55 | No | No | Finance |
| 17. | Bank CIMB Niaga | 7,018 | 0.49 | No | Yes | Banking |
| 18. | Hutama Karya | 6,825 | 0.48 | Yes | No | Non-Building Construction |
| 19. | Permodalan Nasional Madani | 6,746 | 0.47 | Yes | No | Finance |
| 20. | Bank Maybank Indonesia | 6,247 | 0.44 | No | Yes | Banking |
| 21. | Bank OCBC NISP | 5,604 | 0.39 | No | Yes | Banking |
| 22. | BFI Finance Indonesia | 5,541 | 0.39 | No | Yes | Finance |
| 23. | Medco-Energi Internasional | 5,252 | 0.37 | No | Yes | Petroleum and Natural Gas |
| 24. | Maybank Indonesia Finance | 4,400 | 0.31 | No | No | Finance |
| 25. | Indomobil Finance Indonesia | 4,184 | 0.29 | No | No | Finance |
| 26. | Bank Permata | 4,060 | 0.28 | No | Yes | Banking |
| 27. | Indofood Sukses Makmur | 4,000 | 0.28 | No | Yes | Food and Beverages |
| 28. | Bank UOB Buana | 3,800 | 0.27 | No | No | Banking |
| 29. | Adhi Karya | 3,747 | 0.26 | Yes | Yes | Building Construction |
| 30. | Wahana Ottomitra Multiartha | 3,362 | 0.23 | No | No | Finance |
| **Total Top 30 LCY Corporate Issuers** | | **300,361** | **20.96** | | | |
| **Total LCY Corporate Bonds** | | **402,546** | **28.09** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **74.6%** | **74.6%** | | | |

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

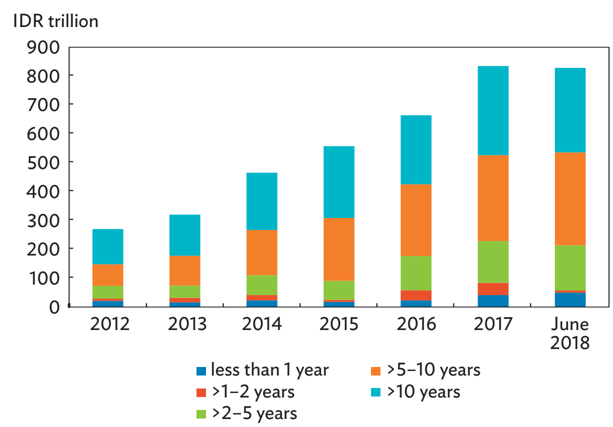
| Corporate Issuers | Coupon Rate (%) | Issued Amount (IDR billion) |
|---|---|---|
| Indonesia Eximbank | | |
| 370-day *sukuk mudharabah* | 6.15 | 135 |
| 3-year bond | 7.50 | 938 |
| 3-year *sukuk mudharabah* | 7.50 | 365 |
| 5-year bond | 7.70 | 35 |
| 7-year bond | 8.30 | 1,756 |
| Federal International Finance | | |
| 370-day bond | 6.10 | 1,592 |
| 3-year bond | 7.45 | 1,408 |
| Indosat | | |
| 370-day bond | 6.05 | 1,209 |
| 3-year bond | 7.40 | 630 |
| 5-year bond | 7.65 | 98 |
| 7-year bond | 8.20 | 266 |
| 10-year bond | 8.70 | 516 |
| Permodalan Nasional Madani | | |
| 3-year bond | 8.00 | 1,254 |
| 5-year bond | 8.50 | 1,246 |
| Astra Sedaya Finance | | |
| 370-day bond | 6.10 | 570 |
| 370-day *sukuk mudharabah* | 6.10 | 325 |
| 3-year bond | 7.50 | 550 |
| 3-year *sukuk mudharabah* | 7.50 | 175 |
| Bank Pan Indonesia | | |
| 3-year bond | 7.40 | 1,500 |

IDR = Indonesian rupiah.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Nonresident investors also include holdings by foreign governments and central banks, which accounted for nearly 7.0% of the total LCY bonds at the end of June.

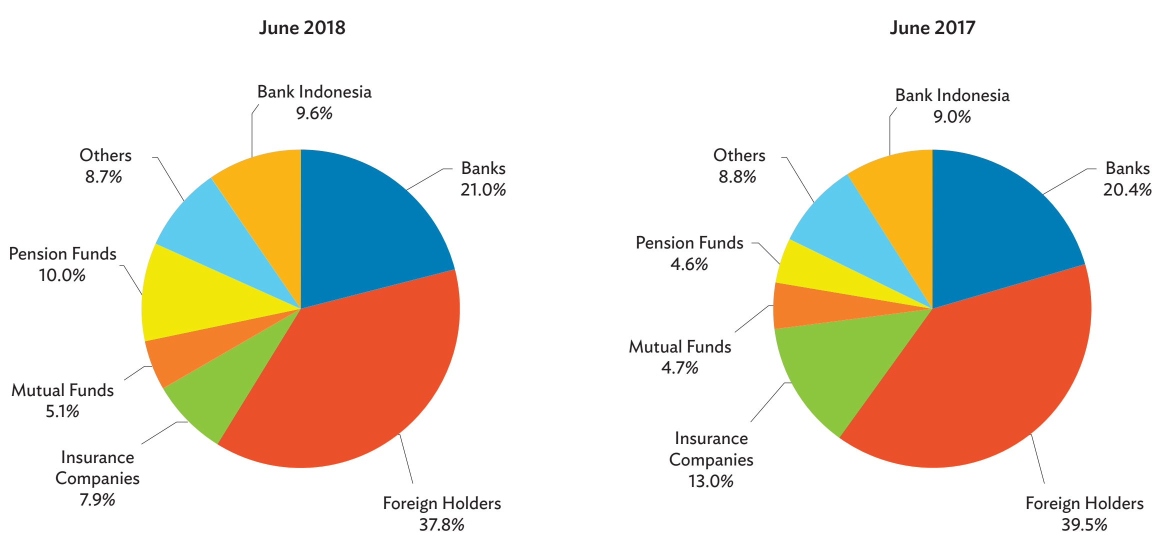
Despite the volatile market conditions, foreign investor holdings of bonds were still largely placed in longer-dated maturities. About 35% of their aggregate bond holdings were in maturities of 10 years or more, and about 39% were in bonds with maturities of more than 5 years to 10 years (**Figure 3**). Nonresident holdings of bonds with

**Figure 3: Foreign Holdings of Local Currency Central Government Bonds by Maturity**




IDR = Indonesian rupiah.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

**Figure 2: Local Currency Central Government Bonds Investor Profile**




Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

maturities of 1 year or less only accounted for about 6% of total foreign investor holdings at the end of June. This reflects foreign investors maintaining a positive outlook on Indonesia's macroeconomic fundamentals.

Among domestic investors, banking institutions were the largest holders of LCY government bonds, with holdings that were broadly unchanged from a year earlier at 21.0% at the end of June. Pension fund holdings gained the most in terms of share to total, more than doubling to 10.0% at the end of June from only 4.6% a year earlier. Bank Indonesia also increased its holdings of bonds as part of dual-intervention measures initiated to help stabilize the Indonesian rupiah. The central bank continued to actively engage in bond purchases in the secondary market in Q2 2018.

In contrast, holdings of insurance companies declined to 7.9% from 13.0% during the same period. All other domestic investors had marginal changes in their respective holdings of LCY government bonds during the review period.

## Ratings Update

On 31 May, Standard & Poor's (S&P) affirmed Indonesia's long-term and short-term credit ratings at BBB–. The long-term rating was given a stable outlook. In making its decision, S&P took note of the government's low debt levels and moderate fiscal performance and external indebtedness.

## Policy, Institutional, and Regulatory Developments

### Bank Indonesia Resumes Issuance of 9-Month and 12-Month Conventional SBI

On 23 July, Bank Indonesia resumed issuance of 9-month and 12-month SBI. The central bank sold IDR4.2 trillion of 9-month SBI and IDR1.8 trillion of 12-month SBI during the auction. The issuance of conventional SBI is expected to help attract foreign portfolio investment into the Indonesian market and provide more diversity in the instruments being issued by the central bank. Since December 2016, only Sharia-compliant SBI had been issued on a monthly basis.

### Bank Indonesia Introduces New Overnight Reference Rate

On 1 August, Bank Indonesia launched a new interbank overnight reference rate called the Indonesia Overnight Index Average (IndONIA). This new rate replaces the overnight Jakarta Interbank Offered Rate (JIBOR). However, JIBOR remains as a pricing reference for longer tenors. Bank Indonesia will continue to provide overnight JIBOR rates until the end of year as the market transitions to using the IndONIA. The shift to a new overnight reference rate will provide a more reliable market-based reference pricing for loan rates and financial instruments. IndONIA is based on the weighted average of all transactions in the interbank lending market by all banks during the day. JIBOR is based on the average loan rates quoted by banks. The new rate will be published by Bank Indonesia at 7:30 p.m. each day (local time).